

# Burkina Faso



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## **Brief History:**

Burkina Faso is a poor, landlocked, sub-Saharan country of 15 million inhabitants. Burkina Faso achieved independence from France in 1960. Burkina Faso has enjoyed political stability since 1987 with the “rectification” of the revolution, including a shift toward more market-oriented economic policies and re-engagement with the international community. Burkina Faso has limited natural resources and rainfall, an economy that is strongly dependent on cotton exports, and a vulnerability to natural disasters and regional instability.

## **On the Economy:**

Burkina Faso has nonetheless achieved real GDP growth rates of over 5 percent per year since 1994, and has shown resilience to recent exogenous shocks with growth rates of 4 percent in both 2007 and 2008. In 2007, real per capita income was US\$430, an increase of over 50% since 1994, but still below the US\$578 for low income countries and US\$952 for Sub-Saharan African. Total GDP is ~ \$8.2 billion<sup>1</sup>.

GDP is composed of three main sectors: agriculture (29.1%), industry (19.9%) and services (51%). Agriculture occupies approximately 80% of the working population, consisting mostly of livestock but also, especially in the south and southwest, of growing sorghum, pearl millet, maize (corn), peanuts, rice and cotton. Industry mainly includes mining, agricultural processing plants, brewing and bottling and light industry. Burkina Faso’s natural resources include Manganese, gold, limestone, marble, phosphate.

Unemployment rate is ~ 77%. Unemployment causes a high rate of emigration. According to the Central Bank of West African States, these migrants send substantial amounts of money back to Burkina Faso each year. Recent unrest in Cote d'Ivoire and northern Ghana has hindered the ability of several hundred thousand seasonal Burkinabe farm workers to find employment in neighboring countries.

A large part of the economic activity of the country is funded by international aid.

Since 1991 the country has implemented substantial economic and social reforms with support from the World Bank, the IMF, and other donors. Much progress has been made in liberalizing the economy and developing the private sector. However, deeper structural and institutional reform is needed to support diversification of an economy still based on low productivity agriculture with a single major export crop (cotton).

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<sup>1</sup> CIA

## OVERVIEW OF FINANCIAL SYSTEM

### Banking System:

Burkina Faso is a member of the West African Economic and Monetary Union (UEMOA) established in January 1994, and comprising eight West African countries (Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, Togo, and Guinea Bissau), which are members of the Franc Zone and use the CFA Franc (XOF) issued by the Central Bank (BCEAO).

As of December 2006, there were 93 banks and 22 financial institutions operating in the UEMOA zone, with 11 banks and five financial institutions located in Burkina Faso. The total balance sheets of the financial system in Burkina Faso amounted to XOF 733 billion at the end of 2005, with the banks accounting for more than 96%, representing close to 27% of the country's GDP. The resources of banks and financial institutions amount to XOF 651 billion, including XOF 73 billion as net equity capital.

Branches and subsidiaries of foreign or regional banks play a relatively important role in financial intermediation in UEMOA. In fact, eight groups (including Société Générale, BNP Paribas, Credit Lyonnais, Citibank, Bank of Africa, Ecobank, and Financial B.C.) dominate the UEMOA banking system with relatively wide national networks.

The government aims to reinforce supervision of the financial sector in co-operation with the monetary authorities. Banking reforms aimed at tightening supervision and improving credit access are ongoing. In general, credit is allocated on market terms, but government still influences lending decisions.

The government has pursued banking privatization and restructuring since the 1990s and limits its direct participation. However, the banking sector development had been stunted by severe government interference, weak risk management capabilities that resulted in a build-up of nonperforming loans (particularly to public companies), and difficult loan recovery. Current restructuring efforts are focused on reducing government participation in the sector, the recapitalization, consolidation or closure of troubled banks (notably the National Development Bank), the creation of a loan recovery bureau, and freeing up the funds borrowed by the treasury from the postal bank (CNE/CCP). Since 1998 a number of new private banks and financial institutions have opened for business.

Credit to the private sector has grown steadily following the devaluation and the efforts to restore banking sector health, but financial intermediation remains low. Total credit as a percentage of GDP has nearly tripled to about 15 percent by end-2005, a major improvement from the lows reached in 1994–95 (See figure below). The bulk of commercial bank lending consists of short-term loans, notably cyclical cotton crop credit and the share of short-term credit has hovered around 70 percent of total credit. The government also believes that

expanding the microfinance sector is crucial in the fight against poverty, and a national strategy for microfinance was adopted in 2005.

Despite significant progress, the financial sector is still underdeveloped. Bankers' representatives have noted that access to credit, particularly to small- and medium-sized enterprises, is hampered because of difficulties in securing and realizing guarantees, insufficient sources of long- term funding, and the often poor quality of loan applications. Money market activity is very low, in part because banks typically have excess liquidity, and the treasury and bond markets are shallow.

#### **Private sector involvement:**

From 1991 onwards the government has pursued an ambitious agenda to increase private sector participation in the economy. This included privatization, breaking government monopolies, liberalizing prices and reducing external trade restrictions. Early successes included the elimination of price controls on most locally produced goods, of profit margin regulations on most imported goods, and of most export and import monopolies (with the notable exceptions of imports of rice, sugar, wheat and petroleum products). There were key achievements in the area of privatization and in government devolvement from the cotton sector (Box 6). Some 47 public enterprises, which represented 80 percent of the government initial portfolio, were liquidated or sold.

#### **Insurance Sector:**

The insurance sector in Burkina Faso is regulated and supervised by the Inter-African Conference of Insurance Markets (CIMA) established on 10 July 1992 in Yaoundé (Republic of Cameroon). The CIMA Treaty came into effect on 15 February 1995. The regulatory body of the CIMA is the Regional Commission of Insurance Control (CRCA), whereas the Council of Ministers is its highest body. The total portfolio of the UEMOA CIMA zone is dominated by the sector of non-life insurance.

Compared to GDP of 2005, the turnover of the insurance sector in Burkina Faso represents 0.7%, well below the average ratio in Africa of 4.8%. At the end of 2005, three life insurance and five non-life insurance companies were operating in the country, with a total turnover of XOF 19.5 billion.

Burkina Faso's property rights laws are weak as a result of weak judicial system.

#### **The UEMOA and the Central Bank (BCEAO)**

The West African Economic and Monetary Union (UEMOA) financial markets are administered through the following institutions:

- The Conference of Heads of State, which decides on the accession of new members.

- The Council of Ministers, which defines, among others, the monetary and credit policy of the Union to safeguard the value of the CFA Franc.
- The UEMOA Commission, as delegated by the Council of Ministers, is in charge of the day-to-day administration of the Union.
- The Central Bank of West African States (BCEAO) is the central bank and controls the Banking Commission responsible for overseeing and supervising banks and financial institutions. The BCEAO also controls the Savings and Financial Markets Regional Council (CREPMF). The capital of BCEAO, currently called up in the amount of XOF 134 billion, is entirely subscribed by the member States and shared equally among them.
- Micro-finance institutions are governed by a separate law, the PARMEC (Projet d'Appui à la Réglementation des Mutuelles d'Epargne et de Crédit) Law, which regulates micro-finance activities in all WAEMU countries.

Burkina Faso is also a signatory to the OHADA Treaty, which harmonizes business law in 16 countries in Sub-Sahara Africa, including all the UEMOA countries.

The main objective of the monetary policy as defined by the UEMOA and implemented by the BCEAO, is to ensure price stability and safeguard the domestic and foreign value of the CFA Franc through appropriate coverage of currency issue by foreign exchange reserves.

### **Capital Markets:**

Burkina Faso participates in a regional stock exchange. The Regional Stock Exchange (BRVM), the stock market for the UEMOA region, started operating in September 1998. It is located in Abidjan and has a branch in each capital city of the other member States of the Union. Its main role is to pool and process stock market orders transmitted by brokerage companies (Société de Gestion et d'Intermédiation-SGI) authorized to negotiate securities quoted on the BRVM. As of December 2006, 19 SGIs were registered in the Union. As of the same date, there was only one SGI (SBIF) in Burkina Faso that is licensed to trade on the BRVM.

The BRVM is regulated by the CREPMF whose responsibilities include the promulgation of policies and procedures to regulate the BRVM, and the promotion of a regional bond market. In order to list on the BRVM, all bond issues must be guaranteed by an approved financial institution, a development financial institution, a guarantee fund, or the Parent Company. At the end of December 2006, the capitalization of the equity market was XOF 2,067 billion whereas the bond market capitalization stood at XOF 489billion, with XOF 260 billion being government bonds, representing 1.07% of the GDP of the Union.

By end-December 2006, 61 securities were listed, including 40 shares and 21 bonds, compared to 57 securities comprising 39 shares and 18 bonds by end-December 2005. As at December 2006, there is no company from Burkina Faso trading on the stock exchange.

### **Fixed income Markets:**

The benchmark issuer in the UEMOA zone is the West African Development Bank (BOAD), a regional multilateral bank. Since 1999, BOAD accounts for close to 22% of all the public debt issues in the market, i.e. XOF 102 billion. In the absence of a government yield curve, BOAD bonds are used as benchmarks.

See below a list of outstanding BOAD bonds (2006)

Title	Face Amount (XOF billion)	Year of Listing	Frequency	Expiration Date
BOAD 6,25% 1999-2009	20.12	1999	Annual	1-Feb-09
BOAD 6,30% 1999-2007	17.09	2000	Annual	27-Oct-07
BOAD 5,85% 2001-2008	11.95	2003	Annual	4-Jan-08
BOAD 5,35% 2004-2011	22.70	2005	Annual	5-Nov-11
BOAD 5% 2005-2013	18.60	2005	Annual	28-Dec-13
BOAD 4,5%, 2005-2011	6.40	2005	Annual	28-Dec-11

#### Government securities:

The Government of Burkina Faso has used treasury bills and bonds to fund its deficit. As of December 2006, the Government has XOF 20.5 billion outstanding in treasury bills and XOF 8.3 billion outstanding on a bond issued in March 2003.

Below is government treasury listed bond (2006).

Title	Face Amount (XOF billion)	Year of Listing	Frequency	Expiration Date
Listed Bonds				
TRESOR PUBLIC DU BF 7% 2003-2007	25.00	2003	Annual	17-Mar-07

#### Non-Central Government issuance:

By December 2006, three companies, all in the telecommunication sector, have raised financial resources on the public debt market. However, only two of the outstanding bonds are listed on the stock exchange. The CREPMF requires that corporate bonds be guaranteed before they can be listed. This requirement can explain the limited use of the capital market by corporate in the UEMOA zone in general and in Burkina Faso in particular.

Below is a list of Non Government Debt Issuance (2006).

Title	Face Amount (XOF billion)	Year of Listing	Frequency	Expiration Date
Listed Bonds				
CELTEL BURKINA FASO 7.15% 2003-2009	3.00	2003	Annual	22-Aug-09
ONATEL 6.65% 2006-2011	16.00	2005	Annual	6-Jun-11
Private Placement Bonds				
TELECEL FASO 7.25% 2004-2009	7.00	2004	Annual	12-Jul-09

**Secondary Market:**

As a consequence of the buy-and-hold attitude of most investors, the secondary market in fixed-income securities in the UEMOA zone is fairly illiquid.

**Investment Taxation:**

Government securities are tax-exempt as opposed to non-governmental securities that are subject to a withholding tax (Impôt sur le Revenu des Valeurs Mobilières-IRVM) applicable to income derived from these securities. The tax rates are the following: 6% for interest income from bonds redeemable in less than five years, 10% for dividends paid out by listed stocks and 12%-18% for income from any other security.

**Derivatives:**

The derivative market is in its infancy. Foreign exchange forwards exist with moderate liquidity and tenors extending up to 3-6 months.

**Other Types of Finance: Microfinance**

The micro-finance sector in Burkina Faso plays an important role in the economy. As of December 2006, more than 600.000 persons have benefited from the service of eight main micro-finance networks. The credit to the economy from these networks is around XOF 31.5 billion.

**Foreign Exchange:**

The CAF Franc (XOF) is not traded on the foreign exchange markets but is fully convertible into the Euro, with the convertibility guaranteed by the French treasury through a special operations account at the central bank of France. This arrangement effectively offers practically unlimited overdraft facilities and allows the CFA states to avoid short-run balance of payments constraints. In return, the BCEAO is required to deposit 65% of its foreign exchange reserves at the Banque de France.

Buying and selling rates of Euro are fixed at XOF 655.957 / 1 Euro, and the rates of other currencies are determined on the basis of the Euro rate on the foreign exchange market.

Payments and transfers of capital within the UEMOA zone and France are unrestricted as are current account transactions. The main restrictions concern the outflow of capital to

countries outside the WAEMU, which is subject to verification based on the submission of supporting documentation.

### **Participation of Foreign investors and issuers**

The banking sector has a high level of foreign ownership, particularly by French financial institutions. Foreign investors can purchase securities listed on BRVM. For instance, an international non-governmental organization, Shelter Afrique, based in Nairobi (Kenya), has issued bonds and listed them on the BRVM.

### **Newly-Written Investment Code**

Burkina Faso's newly-written investment code has helped to promote foreign investment. The World Bank's 2009 Doing Business" ranked Burkina Faso as one of the top ten reformers for 2009. These reforms include the adoption of a labor code in May 2008, improving the process to transfer property, the elimination of commune authorization requirements, the creation of a one-stop-shop to facilitate construction permits, a decrease of the corporate tax rate from 35 to 30 percent, and a decrease on dividend taxes 15 to 12 percent. Foreign investors, particularly in the mining sector, have taken note of this development, since 2007, the country's three commercial gold mines and manganese mine has been opened. Several others are slated to follow in the next two years.

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